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SIPDIS

TREASURY FOR OASIA - CHRIS KUSHLIS AND BILL BLOCK
ENERGY FOR GARY WARD

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SUBJECT: AMBASSADOR CALLS ON NEW MINISTER OF ENERGY AND
MINES ROBERTO GONZALEZ: ENERGY BACKGROUND AND FRIEND OF
MARKET ECONOMICS

Classified By: EconCouns Steven S. Olson for reason 1.5(d)

Summary

¶1. (C) Ambassador called on new Minister of Energy and Mines Roberto Gonzalez on January 28. Gonzalez has strong free-market credentials and beliefs, has a background in the electric power sector, and shares our views on respecting contracts, attracting investment, reducing subsidies, and preserving market based regulation. He appreciated AID's assistance to date and welcomed its continuation. Despite a general atmosphere of open hostility by the new government to its predecessor, he had the grace to recognize the strengths of the previous minister and of the regulatory board the prior government named (and tried, unsuccessfully, to subvert). End Summary.

New Minister Close to Berger, Free Market Background

¶2. (SBU) Ambassador and EconCouns called on new Minister of Energy and Mines Roberto GONZALEZ Diez Duran on January 28. Gonzalez, 36, was personal aide to President Berger during the recent campaign, and his professional and academic background is in the electric power sector. His views are decidedly pro-market. His undergraduate work was at the Francisco Marroquin University (where the libertarian bent requires study of Austrian economists Mises and Hayek). He has a Masters in Finance from the Universidad Catolica in Chile and has studied at the University of Chicago and at the Adam Smith Institute in London, where his focus was on "natural monopolies." He has worked as a consultant on power sector regulation and pricing and on co-generation at a large sugar mill.

Focus on Power, Investment and Cutting Subsidies

¶3. (SBU) Ambassador congratulated Gonzalez on recent comments to the press concerning the need to respect contracts with electrical generators and distribution companies. Gonzalez said that his entire focus was on attracting private investment, and one had to start by respecting the contracts of existing investors. He was fully aware of the terms of existing power purchase agreements (PPAs) and the functioning of the Central American merchant market. He would like to try to lower PPA costs if contracts could be renegotiated to the satisfaction of all parties, but it was clear to him that the real problem in the price structure was the subsidized "social tariff" for users of less than 300 KWh per month. (Note: The IMF has recommended the social tariff's elimination.)

¶4. (SBU) Gonzalez had told the press that the "social tariff" subsidy had to be removed or reduced for all but the poorest of users, and he had mentioned the concept of increasing rates gradually, keeping the existing rate for the first 100 KWh/month, a higher rate for the next 100 KWh/month, and so on up to a flat rate at a level to be determined. The overall effect would be to reduce the cost paid by small businesses and larger household consumers by requiring the middle class to pay its fair share. 300 KWh was simply too high for the social tariff, as it meant that a relative handful of small businesses and wealthier households bore the burden of a subsidy for the vast majority of Guatemalans, while the largest industries were able to negotiate competitive rates with the private merchant generators. Market signals were being subverted and not conveying the proper incentives to market participants. Ambassador commented that all the minister had said coincided with our thinking.

¶5. (SBU) Gonzalez said that he had President Berger's agreement in principle to reduce the social subsidy, but the President had asked him to wait 30 or 45 days before acting. Comment: A little delay is probably a good thing. It provides time to make the public case for why reform is necessary and allows the government to deliver some positive results in its social services agenda, e.g. healthcare, and not have rate hikes its first concrete action. End Comment.

Gonzalez Welcomes AID's Assistance

16. (SBU) Gonzalez had just met with AID contractor PA Consulting, which had produced a study of pricing and regulatory options for the ministry. He welcomed AID's assistance and was delighted to hear that AID was willing to continue collaborating. EconCouns noted that Guatemala served as the model for regulating the interconnected regional energy market and said that it was important that the market-oriented regulatory framework in Guatemala not fall prey to populist initiatives of the sort the Congress had been discussing over the course of the past year.

Regulatory Board and Former Minister Did Well

17. (C) The Ambassador asked Gonzalez's opinion of the national electrical energy regulatory board (CNEE). Gonzalez said that the FRG government had interfered with the board and forced changes in its membership, but the board members had maintained their independence and made decisions on sound technical criteria. He recounted how the FRG had forced one member to resign and replaced him with one of its congressmen, but the congressman had left after a couple of months when he realized he couldn't cause any mischief. EconCouns commented that we remembered the story exactly the same way. He also congratulated the minister for his graciousness in complimenting his predecessor Raul Archila in remarks to the press. Gonzalez said that Archila (not an FRG member) was "a hero" for protecting the ministry from harm from a government that was otherwise a disaster.

Wants to Meet with U.S. Investors in Guatemala

18. (U) Gonzalez asked if we could help organize a meeting of U.S. energy and mining interests, as he would like to get to know them as quickly as possible and hear their concerns. Ambassador said we would like to arrange such an event and would be back in touch shortly.

Comment

19. (SBU) Gonzalez is personable, seemed to want to work with us closely, and shared our view on virtually everything we discussed. He was not yet up to speed on his mining portfolio, though he was reading up on the Glamis Gold Marlin project in San Marcos Department (Glamis is headquartered in Reno Nevada. The Marlin site has initial estimated reserves of 1.4 million ounces of gold associated with ten times that of silver. Investment is estimated at close to \$100 million.) The only deterrent to a longer and more detailed discussion was the minister's insistence on practicing his English, which was either not quite as good as he believed or hadn't been practiced recently. We anticipate a good and fruitful relationship with him (and hope that his English comes back or he decides that Spanish is fine).

HAMILTON